

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Two)

Docket No. RM2022-8

CHAIRMAN'S INFORMATION REQUEST NO. 3

(Issued August 5, 2022)

To clarify the Postal Service's petition to consider proposed changes in analytical principles, filed July 7, 2022,¹ and the Response to CHIR No. 1, filed July 22, 2022,² Postal Service is requested to provide written responses to the following questions. The responses should be provided as soon as they are developed, but no later than August 12, 2022.

The questions are derived from a motion filed by the Public Representative for issuance of information request.³ The Public Representative asserts that the requested information will "allow participants to provide more constructive comments" and "allow the Commission to make a fully informed, reasoned determination on whether Proposal

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), July 7, 2022 (Petition); see Michael D. Bradley, *Calculating Variabilities for Postmaster Costs*, July 7, 2022 (Bradley Study).

The referenced Petition is an update to a prior petition submitted by the Postal Service. See Docket No. RM2020-2, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), November 29, 2019 (Docket No. RM2020-2, Petition); see also Docket No. RM2020-2, Michael D. Bradley, *Investigating the Variability of Postmaster Costs*, November 29, 2019 (Docket No. RM2020-2, Bradley Study); see also Docket No. RM2020-2, Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, January 2, 2020 (Docket No. RM2020-2, Response to CHIR No. 1).

² Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, July 22, 2022 (Response to CHIR No. 1).

³ Motion of the Public Representative for Issuance of Information Request, August 4, 2022 (PR Motion).

Two meets applicable legal and regulatory requirements, including 39 U.S.C. § 3652(e)(2) and 39 CFR part 3050.” PR Motion at 1.

1. The Bradley Study provides equations for marginal cost and overall variability. Bradley Study at 12, 13. Please provide a thorough proof detailing the simplification process for the two above equations. In your response, please discuss in detail the steps of the simplification process and the underlying assumptions.
2. The Bradley Study states that “the Postal Service will closely follow the explicit proposals the Commission put forth to resolve its concerns, without modifying those parts of Proposal Ten that were not of concern. For example, the Commission did not express any concerns about the operational database or the Postal Service’s method of identifying a small number of out-of-bounds observations.” Bradley Study at 4.
 - a. Please explain if and how the Postal Service can determine a measure of the degree of influence or extremeness for each of the identified outliers (*i.e.*, the out-of-bound observations) in Proposal Two. Please provide the methodology used and the assumptions made. If not possible to determine, please explain what is needed to quantify this measure.
 - b. Please explain the reason(s) (*e.g.*, causality, random events, etc.) for the presence of the reported outliers.
3. Please refer to Library Reference USPS-RM2022-8-1, filed July 7, 2022, folder “Directory 4 - Estimate 2022 Models and Variabilities,” SAS program file “Identify Out of Bounds Obs.sas.” Please also refer to the Bradley Study, which states: “Table 4 presents the boundary limits for the various Zones of Tolerance across the EAS grades, along with the cutoff value for identifying any out-of-bounds offices. It also presents the number of out-of-bounds offices identified for each

model.” Bradley Study at 18. Please explain why outliers were not evaluated for the EAS 24 to 26 logit model.

4. Please refer to Response to CHIR No. 1, question 1.a. – 1.b. The Postal Service states “[t]he development of attributable costs for Postmasters thus directly parallels the development of attributable costs for purchased highway transportation.” Response to CHIR No. 1, question 1.a. – 1.b. The Postal Service further states that both methodologies consist of a “two-step process. One of the steps relates responses in cost to changes in a cost driver, and the other step relates responses in the cost driver to changes in volume.” *Id.* Please confirm this parallelism is solely based on the two respective attributable cost methodologies consisting of the referenced two-step process. If confirmed, please explain the rationale behind this parallelism. If not confirmed, please elaborate on the rationale supporting the Postal Service’s assertions.
5. Please refer to the Bradley Study that states: “[i]n many parts of the established attributable costing methodology, such as mail processing or carrier delivery, the linkage of the cost driver to volume is based upon the assumption of proportionality. That is also the case for Postmasters, as the established methodology assumes that changes in [Work Service Credits (WSCs)] are proportional to changes in volume.” Bradley Study at 33. Please also refer to Response to CHIR No. 1, question 1.a. – 1.b. that states: “the Postal Service decided to follow the approach taken in purchased highway transportation, in which the variability between costs and the cost driver was updated and refined, while research on the feasibility of updating the variability between the cost driver and volume proceeded. This decision is further justified by the fact ... that a reduction in the assumed WSC-to-volume variability is unlikely to have a large impact on attributable Postmaster costs per piece.” Response to CHIR No. 1, question 1.a. – 1.b.

- a. Please confirm that the assumed proportionality between changes in WSCs and changes in volume discussed in the Bradley Report is one-to-one.
 - b. If subpart a. is confirmed, please explain the basis for this assumption.
 - c. If subpart a. is not confirmed, please provide the assumed proportionality between changes in WSCs and changes in volume along with an explanation for this assumption.
 - d. Please confirm that the assumed WSC-to-volume variability discussed in Response to CHIR No.1 can exceed 100 percent.
 - e. If subpart d. is confirmed, please
 - i. explain the rationale behind making inferences from a reduction in WSC-to-volume variability but not making such an inference from an increase in WSC-to-volume variability.
 - ii. provide a justification for the decision quoted in Response to CHIR No. 1 in terms of the expected impact of an increase in WSC-to-volume variability.
6. Please refer to Library Reference USPS-RM2022-8-1, filed July 7, 2022, folder “Directory 1 – MEDBPAC 2019”, SAS log file “2019 Calculate Variability 24 and 26.txt,” and folder “Directory 3 – Compare Datasets,” SAS log file “Compare 2022 and 2019 Datasets.txt.”
- a. Please confirm that the number of observations used to estimate the 2019 variabilities appears to be different when comparing the Directory 1 programs to the Directory 3 program for all EAS Grade pairs except for EAS-24 to EAS-26.
 - b. If subpart a. is confirmed, please explain the reasons for this discrepancy.

- c. If subpart a. is not confirmed, please provide the number of observations used to estimate the 2019 variabilities in the Directory 1 programs and the Directory 3 program.

By the Chairman.

Michael Kubayanda